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TAGS: ECON, EFIN, ENRG, OECD

SUBJECT: XCSS DOC ON COOPERATION IN ECON, TRADE,
MONETARY AND DEVELOPMENT POLICIES

REF: CE(74)3

1. SUMMARY: REFDOD (AIR POUCHED STATE EUR/RPE MARCH 4)
IDENTIFIES CRITERIA TO GUIDE ECONOMIC POLICY IN IM-
PORTANT AREAS: DOMESTIC ECONOMIES, BALANCE PAYMENTS,
TRADE, INVISIBLES, CAPITAL MOVEMENTS, INTERNATIONAL
BORROWING, OFFICIAL CREDIT FACILITIES, EXCHANGE RATES
AND DEVELOPMENT COOPERATION. MAIN PURPOSE IS TO ASSIST
XCSS TAKE STOCK PROGRESS MADE IN MEETING OIL RELATED
PROBLEMS FOREGOING AREAS AND HELP SPOTLIGHT FIELDS
WHERE FURTHER PROGRESS URGENT. END SUMMARY.

2. REFDOD (AIR POUCHED STATE EUR/RPE MARCH 4) IDENTI-
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FIES CRITERIA THAT SHOULD GUIDE POLICY IN THREE BROAD

AREAS: DOMESTIC ECONOMIES, BALANCE PAYMENTS, AND DEVELOPMENT COOPERATION. DOC'S STATED PURPOSE IS NOT TO PROVIDE NEW ANALYSIS OIL RELATED PROBLEMS BUT TO TAKE STOCK PROGRESS MADE IN ELABORATING ELEMENTS OF COOPERATIVE RESPONSE TO MEET THEM. SECRETARIAT HOPES XCSS WILL BE ABLE ON BASIS REFDOK FORM JUDGMENT ON PROGRESS ALREADY MADE AND TO INDICATE WHERE FURTHER PROGRESS PARTICULARLY URGENT. SUMMARY PRINCIPAL POINTS FOLLOWS:

3. DOMESTIC ECONOMIC POLICIES: ECONOMIC, SOCIAL AND POLITICAL CONSEQUENCES OF SHARP ACCELERATION INFLATION AND SLOW GROWTH REAL INCOMES POSE MOST SERIOUS PROBLEMS FOR ECONOMIC MANAGEMENT. MEMBER COUNTRIES AT FEBRUARY EPC MEETING MORE OR LESS AGREED: (A) PERSEVERE IN FIGHT AGAINST INFLATION; (B) AVOID RE-EMERGENCE EXCESS DEMAND, BUT OVERALL RESTRICTION DEMAND NOT APPROPRIATE RESPONSE TO OIL PRICE HIKE; (C) IF DEMAND NEEDS STIMULATION, USE TEMPORARY, SELECTIVE MEASURES FAVORING INVESTMENT DESIGNED NOT TO OVERLOAD SECTORS ALREADY AT FULL CAPACITY; (D) IF CONSUMPTION ALSO NEEDS BOOST, USE MEASURES REINFORCING PRICE STABILIZATION, E.G., CUT INDIRECT TAXES OR CHANGE SOCIAL SECURITY PAYMENTS AND BENEFITS TO REDUCE WAGE PRESSURES; (E) COUNTRIES IN STRONG EXTERNAL POSITION SHOULD TAKE LEAD ENSURE BUOYANT WORLD DEMAND, WHILE THOSE IN WEAK EXTERNAL POSITION SHOULD ATTEND PARTICULARLY TO INFLATION AND NEED SHIFT RESOURCES TO EXTERNAL SECTOR. DOC NOTES DIFFICULTY ALL COUNTRIES TRYING FOLLOW APPROPRIATE DOMESTIC POLICIES UNLESS THEY HAVE ASSURANCE OTHER COUNTRIES DOING SAME. XCSS MAY NOT WANT DISCUSS ISSUES IN DETAIL, BUT MAY WISH STRESS IMPORTANCE IT ATTACHES TO CLOSE INTERNATIONAL COOPERATION IN OECD AND NEED FOR EVOLVING SITUATION BE REVIEWED AT MINISTERIAL PLANNED FOR MAY.

4. BALANCE PAYMENTS POLICY: OIL PRICE RISE WILL CAUSE MAJOR CHANGE IN WORLD BALANCE PAYMENTS STRUCTURE. THIS SHIFT RAISES DANGER THAT CONFLICTING BEGGAR LIMITED OFFICIAL USE

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THY NEIGHBOR POLICIES COULD LEAD TO WORLD RECESSION C-20, EPC, WP-3 AND TRADE COMMITTEE DISCUSSIONS HAVE SHOWN WIDE AGREEMENT THAT GENERAL STRATEGY SHOULD BE TO LIMIT SIZE AND DURATION OF SWING FROM SURPLUS TO DEFICIT OF OECD AREA BY ECONOMIZING ENERGY CONSUMPTION, DEVELOPING ALTERNATE SOURCES SUPPLY, INCREASING IMPORT CAPACITY OIL PRODUCING COUNTRIES, AND ENCOURAGING TRANSFER PART INCREASE WORLD SAVINGS

TO NON-OIL LDC'S. THIS WILL HELP ONLY SMALL PART
OF ADJUSTMENT, AND OECD MEMBERS MUST RECOGNIZE
GREATER PART OF SWING TOWARD OIL RELATED LARGER
CURRENT ACCOUNT DEFICITS HAS TO BE ACCEPTED.

5. TRADE POLICY: IT SEEMS DESIRABLE GOVERNMENTS
SHOULD UNDERTAKE FOR FIXED PERIOD OF ONE OR TWO
YEARS NOT RESORT TO TRADE MEASURES TO RESTRICT IM-
PORTS OR STIMULATE EXPORTS TO MEET BALANCE PAYMENTS
DIFFICULTIES RELATED OIL PRICE RISE. ON EXPORT
CREDITS THERE IS DANGER OF INTENSIFIED COMPETITION;
SECTORAL OR GLOBAL AGREEMENTS COULD BE ENVISIONED,
AS WELL AT TIGHTENING INFORMATION AND CONSULTATION
PROCEDURES IN OECD. IT WOULD BE APPROPRIATE BROADEN
AND ACCELERATE WORK OF GROUP IN EXPORT CREDITS AND
GUARANTEES. IT MIGHT BE USEFUL WORK OUT RULES OR
AT LEAST MAKE COMMITMENT PRIOR CONSULTATION IN FIELD
EXPORT RESTRICTIONS WHERE NO INTERNATIONAL RULES
YET AGREED, SUCH AS EXPORT CONTROLS. RE BILATERAL
AGREEMENTS, TWO SIMULTANEOUS APPROACHES SUGGESTED:
(1) ORGANIZE EXCHANGE INFORMATION AND (2) EXAMINE
ADVANTAGES AND DISADVANTAGES TYPES BILATERAL AGREE-
MENTS WITH VIEW ARRIVING AT GUIDELINES LIMIT HARMFUL
EFFECTS ON INTERNATIONAL TRADE.

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6. INVISIBLES: MEMBERS COULD (1) AGREE ABSTAIN ONE OR TWO YEARS FROM INTRODUCING RESTRICTIONS ON INVISIBLE TRANSACTIONS TO MEET OIL RELATED BALANCE PAYMENTS DIFFICULTIES; (2) REAFFIRM NOT TO SINGLE OUT TOURIST ALLOWANCES FOR CUTS; AND (3) AGREE IT IN-APPROPRIATE TOURIST DEPENDENT COUNTRIES INTRODUCE REBATES AND SUBSIDIES TO ALLEVIATE IMPACT OF HIGHER OIL PRICE ON DEMAND FOR TOURISM.

7. CAPITAL MOVEMENTS AND FINANCING OF DEFICITS: SINCE OIL PRODUCERS LIKELY KEEP LARGE PART THEIR EARNINGS IN LIQUID FORMS, THERE WILL BE LARGE INCREASE INTERNATIONALLY MOBILE CAPITAL RESPONSIVE INTEREST RATE DIFFERENTIALS AND SPECULATIVE PRESSURES. THIS SUGGESTS NEED FOR INTENSIFIED CONSULTATION ON MONETARY POLICIES WITH VIEW ENSURING MONETARY CONDITIONS MAJOR FINANCIAL CENTERS DIVERGE NO MORE THAN NECESSARY GIVEN DIFFERING SITUATIONS
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AND INSTITUTIONS. ALSO DESIRABLE COUNTRIES LIKELY BENEFIT OVERALL FROM CAPITAL FLOWS SHOULD REMOVE CAPITAL CONTROLS ON OUTFLOWS, WHILE COUNTRIES IN REVERSE SITUATION SHOULD REMOVE CONTROLS ON INFLOWS. SOME COUNTRIES FEEL CAPITAL FLOWS MAY BE TOO BIG FOR MARKETS HANDLE UNAIDED, AND THIS SUGGESTS NEED FURTHER GUIDELINES AND CLOSE CONSULTATION BETWEEN MEMBERS CONCERNED. TO FINANCE PART OF NEW DEFICITS, BORROWING ON INTERNATIONAL MARKETS SHOULD BE ENCOURAGED. IT HAS BEEN SUGGESTED THAT THESE MARKETS COME UNDER CLOSER SURVEILLANCE TO AVOID OVEREXTENSION, THAT THERE BE INFORMAL AND CONFIDENTIAL EXCHANGES INFORMATION ABOUT PROSPECTIVE BORROWINGS, AND GOING FURTHER, THAT THERE BE ARRANGEMENTS TO ENSURE ORDERLY QUEUE OF BORROWINGS AND POSSIBLY TO DEVELOP BROAD UNDERSTANDING ON APPROPRIATE TERMS. RE OFFICIAL CREDITS, DOC NOTES SWAP FACILITIES NOT SUITED COVER ANY SIGNIFICANT PART FINANCING OIL DEFICITS, WHICH LIKELY PERSIST; IMF DRAWINGS APPROPRIATE FOR SERIOUS BALANCE PAYMENTS SITUATIONS EXISTING BEFORE OIL CRISIS. BEYOND THESE THERE IS PROPOSAL FOR NEW IMF OIL FACILITY NOW UNDER DISCUSSION IN EXECUTIVE BOARD.

8. EXCHANGE RATE POLICIES: GIVEN MAJOR UNCERTAINTIES, THERE IS CONCERN THAT MARKET FORCES COULD PUSH EXCHANGE RATES WELL OUT OF LINE WITH REALITIES OF SITUATION. UNDER THESE CIRCUMSTANCES, C-20 DISCUSSION ON GUIDELINES FOR FLOATING SHOULD BE PUSHED AHEAD AND APPLIED TO PRESENT SITUATION THROUGH EXISTING IMF MACHINERY, STRENGTHENED SOONEST BY ESTABLISHMENT OF NEW MINISTERIAL COUNCIL. TAKING INTO ACCOUNT PREVIOUS C-20 DISCUSSIONS, MORE EMPHASIS SHOULD BE GIVEN TO END PRODUCT EXCHANGE RATE POLICY, I.E., MAINTENANCE OF AN EXCHANGE RATE APPROPRIATE TO CIRCUMSTANCES OF COUNTRY CONCERNED BY INTERVENTION OR OTHER INTERNATIONALLY ACCEPTABLE POLICY MEASURES. THERE IS NEED FURTHER DISCUSSION IN OECD ON BALANCE PAYMENTS AIRMS, AND ON OPERATIONAL QUESTIONS CONCERNING RESPONSIBILITY FOR AND TECHNIQUES OF INTERVENTION.

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9. IN SUM RE BALANCE PAYMENTS POLICIES, XCSS MAY THEREFORE WANT CONSIDER IN WHICH AREAS MORE PRECISE UNDERSTANDINGS MAY BE NEEDED STRENGTHEN INTERNATIONAL COMMUNITY'S DEFENSE AGAINST COMPETITIVE AND SELF DEFEATING ACTION IN FOREGOING FIELDS.

10. DEVELOPMENT COOPERATION POLICY: TO HELP NON-OIL LDC'S, SOME OF WHOM WILL HAVE THEIR FINANCIAL POSITION GRIEVOUSLY IMPAIRED, OECD COUNTRIES SHOULD SET EXAMPLE BY RECHANNELLING INCREASED SAVINGS OF OIL PRODUCERS. SOME OF THESE TRANSFERS WILL HAVE TO TAKE FORM OF CONCESSIONAL AID, BUT IMPORTANT PART COULD TAKE FORM OF CAPITAL AT COMMERCIAL TERMS, WHICH WOULD PLACE NO DIRECT BURDEN ON OECD COUNTRIES. IT IS HOPED EFFORTS DAC MEMBERS WILL BE SUPPLEMENTED BY THAT OF OIL PRODUCERS. IN TERMS IMMEDIATE RESPONSE TO NEW SITUATION, OECD COUNTRIES SHOULD TRY MAINTAIN OR INCREASE BILATERAL AND MULTILATERAL AID FLOWS; HAVE FLEXIBLE PROCEDURES TO DELIVER QUICKLY EMERGENCY AID; CONSIDER GRANTING DEBT RELIEF TO HARDEST HIT LDC'S, AND SEEK ADVANCE REPAYMENT FROM OIL PRODUCERS; FOLLOW FOOD SITUATION CLOSELY IN VIEW SHORT SUPPLIES AND HIGHER PRICES FERTILIZERS. OVER LONGER RUN, OECD MEMBERS SHOULD REVIEW AND IMPROVE GEOGRAPHICAL DISTRIBUTION AID IN TERMS OF NEED, ENCOURAGE TRANSFERS PRIVATE CAPITAL, SEEK NEW FORMS COOPERATION WITH OIL PRODUCERS TO PROMOTE THEIR INDUSTRIALIZATION PARTICULARLY THROUGH TRANSFER TECHNOLOGY AND KNOW HOW, AND ENCOURAGE OIL PRODUCERS PARTICIPATE IN DEVELOPMENT COOPERATION. XCSS MAY WISH HAVE EXCHANGE VIEWS ALONG LINES THESE SUGGESTED

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